

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-324-E - ORDER NO. 2008-651
SEPTEMBER 18, 2008

IN RE: Application of South Carolina Electric & Gas)
Company for Authority to Borrow Proceeds)
of Industrial Revenue Bonds and for Issuance)
and Deposit of First Mortgage Bonds)

ORDER GRANTING
APPLICATION

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the "Commission") by way of an Application filed on August 22, 2008, by South Carolina Electric & Gas Company ("SCE&G"), a corporation organized under the laws of South Carolina. The Application was filed pursuant to §58-27-1710, S.C. Code of Laws (1976) as amended and 26 S.C. Code Ann. Regs. 103-823 (1976) as amended.

SCE&G proposes to enter into a Loan Agreement, in substantially the form attached as Exhibit A to the Application (the "Loan Agreement"), with respect to the issuance by the South Carolina Jobs-Economic Development Authority (the "Authority") of not exceeding Thirty-Five Million Dollars (\$35,000,000) principal amount of industrial revenue bonds (the "Bonds") to defray the costs of certain Pollution Control Facilities (as defined herein) and to enter into the transactions described in this Application, including but not limited to, SCE&G's possible issuance and deposit with a corporate trustee (the "Trustee") of its First Mortgage Bonds (the "Pledged First Mortgage Bonds") issued pursuant to SCE&G's Indenture dated as of April 1, 1993, as

supplemented (the "1993 Indenture"), between SCE&G and The Bank of New York Mellon Trust Company, N.A., successor to NationsBank of Georgia, National Association, as trustee (the "New Trustee"), as security for the Bonds.

II. FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. BUSINESS

SCE&G is an electric utility operating in the State of South Carolina, serving the central, southern and southwestern portions of the State with electric service and furnishing natural gas service throughout its service territory which encompasses all or part of 35 of the 46 counties in South Carolina and covers more than 23,000 square miles.

B. AMOUNT AND CHARACTER OF SECURITIES TO BE ISSUED

1. Terms of Bonds

SCE&G proposes to enter into the Loan Agreement with the Authority, pursuant to which the Authority will agree to issue and sell the Bonds pursuant to a Trust Indenture, in substantially the form attached as Exhibit B to the Application (the "Indenture"), between the Authority and a corporate trustee (the "Trustee"), the terms for the Bonds generally described as follows:

Principal Amount:	\$35,000,000 (maximum) in one or more series
Issue Date:	On or before December 23, 2008
Interest Rate:	Market, may be subject to periodic reset
Maturity Date:	40-year maximum

Call and Redemption Features:	Market
Sinking Fund:	Market, but none required
Estimated Initial Offering Price:	Between 97% and 115% of par
Underwriting Discount:	1% (maximum) (expected range .5% to .75%)
Redemption Price:	Market-estimated to be not in excess of 103% of principal amount
Credit Ratings:	Moody's – A2; S&P – A-; Fitch – A+.

As stated in the Application, the interest rates on the Bonds may be reset daily, weekly, or for intermediate or extended periods, or may be fixed to maturity, all as selected from time to time by SCE&G. SCE&G states in the Application that interest paid on the Bonds will be excluded from gross income of the registered owners thereof for federal and South Carolina income tax purposes. SCE&G further states that regardless of whether the Bonds are issued at a variable rate of interest or an interest rate fixed for an intermediate or extended period of time or to maturity, at the time of initial issuance it expects that the interest rate on the Bonds will not exceed 7.0%.

As stated in the Application, SCE&G may elect, at each interest rate reset and subject to the requirements of the Indenture, to reset the interest rate based upon the existing interest determination method, select a different reset period and interest rate determination method or fix the interest rate on the Bonds to maturity. SCE&G states in the Application that, once the election is made to fix the interest rate on the Bonds to

maturity, there will be no future interest rate resets or opportunities to convert the Bonds to a different interest rate or interest determination method.

SCE&G further states that the variety of interest rates and terms allowable under the Indenture permits it to manage the interest cost of the borrowings until such time, if ever, when SCE&G determines market conditions are favorable to fix the interest rate on the Bonds to maturity. As stated in the Application, SCE&G alternatively could take advantage of market conditions by entering into, modifying, amending, or terminating interest rate swaps to effectively change the stream of interest payments from fixed rate to floating rate or vice versa without effecting a conversion or refunding of the Bonds.

SCE&G has stated in the Application that it expects the Bonds to be sold in an underwritten public offering as described in an Official Statement, in substantially the form of the draft Preliminary Official Statement attached as Exhibit C to the Application.

2. Security

SCE&G states that the Bonds may be sold on its general credit or as secured by a pledge to the Trustee of an equal principal amount of Pledged First Mortgage Bonds issued under the 1993 Indenture. The Application states that if issued as security for the Bonds, the Pledged First Mortgage Bonds will be secured primarily by the lien of the 1993 Indenture upon substantially all of the electrical generation, transmission and distribution properties of SCE&G as described in the granting clauses of the 1993 Indenture. SCE&G states that Pledged First Mortgage Bonds may be issued on the basis of unfunded property additions equal to ten-sevenths of the aggregate principal amount of such additional Pledged First Mortgage Bonds,

retirement credits, or cash equal to the aggregate principal amount of such Pledged First Mortgage Bonds. SCE&G further states that the Bonds may also be secured by a bank letter of credit, in which event the Pledged First Mortgage Bonds may also secure SCE&G's repayment obligation under the credit or reimbursement agreement under which the letter of credit is delivered.

3. Net Earnings Test

The Application states that, in general, the issuance of Pledged First Mortgage Bonds under the 1993 Indenture is subject to adjusted net earnings of SCE&G for 12 consecutive months within the preceding 18 months being at least twice the annual interest requirements on mortgage securities at the time outstanding and the Pledged First Mortgage Bonds then to be issued.

4. Maturity and Interest Rate of Pledged First Mortgage Bonds

SCE&G states that it expects that the Pledged First Mortgage Bonds will have a maturity date which will coincide with the maturity of the Bonds and will bear interest at a rate not exceeding the interest rate in effect for the Bonds from time to time.

5. Application of Proceeds

SCE&G states that federal and state air emissions standards necessitate the addition of certain equipment at the Plant to include but not be limited to, desulfurization equipment (wet scrubber) (the "Pollution Control Facilities") in connection with the operation of SCE&G's Wateree generating plant (the "Plant") located within Richland County. SCE&G further states that the Pollution Control

Facilities will be capable of reducing sulfur dioxide (“SO₂”) emissions at the Plant by at least 95%. The Application states that, as a result of the Clean Air Act Amendments of 1990 and subsequent legislation, regulations and rules, the Environmental Protection Agency and the South Carolina Department of Health and Environmental Control require reduction of SO₂ emissions from coal-fired generating facilities. SCE&G states in the Application that the net proceeds from the sale of the Bonds will be loaned by the Authority to SCE&G pursuant to the Loan Agreement for the purpose of financing a portion of the costs to construct the Pollution Control Facilities and to reimburse prior advances made by SCE&G for such purposes.

C. COMPLIANCE WITH PSC ORDER NO. 91-72

In compliance with the provisions of Order No. 91-72, dated January 18, 1991, Docket No. 91-032-E, SCE&G submitted financial statements and information required by the Order.

D. TERMS OF ISSUANCE AND SALE AT MARKET

The Application states that SCE&G may offer and sell one or more series of the Bonds from time to time when market conditions, in SCE&G's judgment, are favorable, in either of three ways:

- A. Underwriters or Dealers. If underwriters are utilized with respect to any series of the Bonds, SCE&G may sell such series pursuant to an appropriate bond purchase agreement to any underwriter or to a group of underwriters to be selected at the time of each such sale.

- B. Private Placement. Private placement to a limited number of purchasers or to a single purchaser, which will require an appropriate sales agreement with respect to such Bonds.
- C. Through Agents. SCE&G may offer any series of the Bonds in a private placement or through agents to a limited number of purchasers or to a single purchaser, using an appropriate sales agreement with respect to such Bonds.

SCE&G further states that negotiations at market with the purchaser or purchasers, to be concluded shortly before the offering of each series of the Bonds, will determine the interest rate to be borne by, the maturity date of, the initial offering price of, the price to be paid to SCE&G for, the call provisions of, any underwriting or purchase discount (i.e., the difference between the initial offering price and the price paid by the purchaser underwriter to SCE&G) with respect to, and the redemption prices of, each series of the Bonds. SCE&G states in the Application that the Bonds may be resold subject to the periodic reset of the interest rate therein for varying periods. The Application states that, based on market conditions, SCE&G believes that the initial offering price and any remarketing price usually will not be less than 97% nor more than 115% of the principal amount of such series of Bonds, that any underwriting discount will not exceed 1% of the principal amount of such series of the Bonds, and that the initial regular redemption price, if any, will not exceed 103% of the principal amount of such series of the Bonds. SCE&G has requested in the Application that it be authorized to negotiate, in its judgment, the most favorable initial interest rate or interest rate

determination method and terms obtainable on the date each series of the Bonds is sold including, if appropriate, terms, prices and redemption provisions.

After investigation by the South Carolina Office of Regulatory Staff and upon full consideration by the Commission, the Commission is of the opinion, and so finds, that the matters set forth in the Application and the exhibits thereto are proper; that the purpose of the proposed use of the proceeds by SCE&G of the Bonds is proper; that the proposal to issue the Bonds is reasonable and proper; and that the proposed alternate methods of offering the Bonds are proper.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

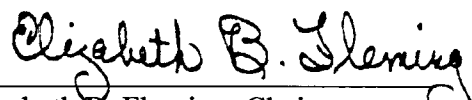
- (1) SCE&G is granted a Certificate of Authority stating (a) that the issuance of up to Thirty-Five Million Dollars (\$35,000,000) of Bonds, and the borrowing of the proceeds thereof by SCE&G, are reasonably necessary to the financing of the construction herein described and (b) that the value of the Pollution Control Facilities will be equal to or in excess of the amount of loan proceeds to be applied for that purpose.
- (2) The terms and conditions of the Loan Agreement are authorized and approved and SCE&G is authorized and empowered to execute and deliver the Loan Agreement in connection therewith.
- (3) SCE&G is authorized and empowered to issue and deposit with the Trustee as security for SCE&G's obligations under the Loan Agreement and any letter of credit reimbursement agreement not exceeding Thirty-

Five Million Dollars (\$35,000,000) aggregate principal amount of Pledged First Mortgage Bonds.

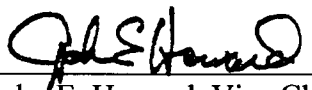
- (4) SCE&G is authorized and empowered to execute and deliver a bond purchase or sales agreement with respect to the issuance of the Bonds.
- (5) SCE&G is authorized and empowered to negotiate, execute and deliver from time to time letter of credit reimbursement agreements with respect to the Bonds, providing for the delivery of bank letters of credit to enhance the marketability of the Bonds.
- (6) SCE&G is authorized and empowered to enter into, amend, modify and terminate, from time to time, such interest rate swap transactions with respect to the Bonds as SCE&G shall determine to be advisable.
- (7) SCE&G is authorized and empowered to periodically reset the interest rate term and determination method with respect to the Bonds pursuant to the terms of the Indenture.
- (8) SCE&G is authorized and empowered to negotiate the terms of the transaction as described herein and to make such changes in the instruments filed as exhibits to the Application and to negotiate and to enter into other related or supplemental agreements as are reasonably necessary, including, but not limited to, changes in the dates of the documents described herein, to consummate the transactions described herein or hereafter to maintain or preserve such transactions.

- (9) SCE&G shall file with the Commission conformed copies of the instruments (and any amendments, modifications and extensions thereto) in the final form in which they are executed.
- (10) The maximum amount of borrowings and character of the securities issued thereby, as proposed, are reasonably necessary for the purpose for which they are to be issued as described above.
- (11) This Order shall not, in any way, affect or limit the right, duty or jurisdiction of the Commission to further investigate and order revisions, modification or changes with respect to any provisions of this Order in accordance with the law.
- (12) This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Elizabeth B. Fleming, Chairman

ATTEST:


John E. Howard, Vice Chairman
(SEAL)